



OFFICE OF
INSURANCE COMMISSIONER

In The Matter Of

AMERICAN ECONOMY INSURANCE)
COMPANY; AMERICAN STATES)
INSURANCE COMPANY; FIRST)
NATIONAL INSURANCE COMPANY)
OF AMERICA; GENERAL INSURANCE)
COMPANY OF AMERICA; and SAFECO)
INSURANCE COMPANY OF AMERICA)

Authorized Insurers)
_____)

Order No. D07-330

CONSENT ORDER
LEVYING A FINE

The Insurance Commissioner of the State of Washington, pursuant to the authority set forth in RCW 48.02.080 and RCW 48.05.185, and having reviewed the official records and files of the Office of the Insurance Commissioner ("OIC"), makes Findings of Fact and Conclusions of Law as follows:

FINDINGS OF FACT:

1. American Economy Insurance Company, American States Insurance Company, First National Insurance Company of America, General Insurance Company of America, and Safeco Insurance Company of America (herein collectively referred to as the "Companies") are authorized insurers writing insurance in the State of Washington. The Companies' lines of business include various forms of commercial and personal insurance.
2. Each of the Companies' 2003 calendar year Special Liability Reports (SLRs) were inaccurate:
 - a. On April 30, 2004, the Companies timely filed their calendar year 2003 SLRs. They showed zeroes for all reported data.
 - b. On August 30, 2005, following up from an August 19, 2005 conversation, OIC's Garth Nelson e-mailed Kia Coston, an employee of Safeco Insurance Company of America (herein "Safeco"). Garth had recently compared the Companies' 2003 and 2004 SLRs and found apparent discrepancies. As a result, Mr. Nelson inquired about some of the data and asked Ms. Coston to confirm the accuracy of the SLRs.
 - c. On September 2 and 8, 2005, in response to Mr. Nelson's questions, Ms. Coston stated that while she believed the 2004 calendar year SLR data was "correct," the 2003 calendar year SLR "was not reported right." [sic]

- d. On September 19, 2006, OIC's Aaron Wright reviewed the SLRs. Mr. Wright contacted Safeco about discrepancies, and requested the 2003 and 2004 SLRs be recalculated and resubmitted. Per his request, on September 19, 2006 Safeco's Bobbi Hodgson-Jeffers e-mailed OIC the Companies' corrected 2003 calendar year SLRs. Each shows substantially different data than reported for the Companies two years previously.
3. Each of the Companies' 2004 calendar year SLRs were inaccurate, and untimely filed:
 - a. On June 3, 2005, OIC received the Companies' 2004 SLRs. They were filed late.
 - b. On August 23, 2006, as OIC's Aaron Wright was entering the Companies' 2005 SLR data, he noticed it was "inconsistent with" the Companies' previous submittals. On August 23, 2006, Mr. Wright wrote to Safeco's Bobbi Hodgson-Jeffers and asked her to compare the Companies' 2003 and 2004 data with the Companies' 2005 data.
 - c. On August 30, 2006, Ms. Hodgson-Jeffers e-mailed Mr. Wright and wrote "the 2005 SLR...is correct," but the Companies' "report criteria for the 2003 *and* 2004 SLR was incorrect, particularly in the Architects & Engineers Malpractice and Municipal Liability columns." (Emphasis added.)
 - d. On September 13, 2006, in light of the reported inaccuracies in the Companies' SLRs, Mr. Wright e-mailed Ms. Hodgson-Jeffers and requested that the Companies provide OIC with accurate SLRs for 2003 and 2004.
 - e. On September 19, 2006, OIC received an e-mail with the Companies' corrected 2004 calendar year SLRs. Comparing the columns on the Companies' revised 2004 SLRs with their original 2004 SLRs received June 3, 2005, each shows substantially different data.
4. The Companies' 2005 calendar year SLRs were untimely filed. The Companies claim that on June 7, 2006, after their SLRs were already past due, they contacted OIC and requested and received an extension to allow their 2005 SLRs to be filed by June 30, 2006. When OIC asked the Companies to provide proof of the extension, the Companies only referred to log notes that did not identify what person at OIC purportedly granted the extension. It does not appear that the Commissioner or any OIC employee with authority granted any such extension on June 7, 2006.
5. First National Insurance Company of America (herein "First National") filed an incorrect Annual Statement. When OIC began to compare the SLR data referenced in the foregoing paragraphs, the data was also compared to Annual Statement data. This revealed that First National reported its 2003 Washington medical malpractice incurred losses data on the *Vermont* line of Supplement A to Schedule T of the company's Annual Statement.

CONCLUSIONS OF LAW:

1. The Companies' failure to file 2003 calendar year SLRs containing accurate data as required by RCW 48.05.390 violated WAC 284-07-010 and RCW 48.05.380.
2. The Companies' failure to file 2004 calendar year SLRs containing accurate data as required by RCW 48.05.390 violated WAC 284-07-010 and RCW 48.05.380.
3. The Companies' failure to timely file their 2004 calendar year SLRs no later than May 1, 2005 violated WAC 284-07-010 and RCW 48.05.390.
4. The Companies' failure to timely file their 2005 calendar year SLRs no later than May 1, 2006 violated WAC 284-07-010 and RCW 48.05.390.
5. First National's failure to file a true and correct Annual Statement violated RCW 48.05.250

CONSENT TO ORDER:

American Economy Insurance Company, American States Insurance Company, First National Insurance Company of America, General Insurance Company of America, and Safeco Insurance Company of America (herein "the Companies"), acknowledging their duty to comply fully with the applicable laws of the State of Washington, consent to the following in consideration of their desire to resolve this matter without further administrative or judicial proceedings. The Insurance Commissioner consents to settle the matter in consideration of the Companies' payment of a fine, and upon the Companies fully carrying out their obligations under the Compliance Plan attached hereto as Exhibit A, and upon such terms and conditions as are set forth below.

1. The Companies consent to the entry of this Order, waive any and all hearing rights, and further administrative or judicial challenges to this Consent Order.
2. By agreement of the parties, the Insurance Commissioner will impose a fine of Twenty Seven Thousand Dollars (\$27,000) and suspend Thirteen Thousand Five Hundred Dollars (\$13,500) of that, subject to the following conditions:
 - a. Within thirty (30) days of the entry of this Order, the Companies pay Thirteen Thousand Five Hundred Dollars (\$13,500).
 - b. The Companies commit no further violations of the statutes and regulations that are the subject of this Order for a period of three (3) years from the date this Order is entered, and also fully carry out their obligations under the Compliance Plan attached hereto as Exhibit A.
 - c. The Companies understand and agree that any future failure to comply with the statutes and regulations that are the subject of this Order constitutes grounds for further penalties, which may be imposed in direct response to further violation, in addition to the imposition of the suspended portion of this fine.

d. The suspended portion of this fine will be imposed at the sole discretion of the Insurance Commissioner according to the conditions as set forth above, without any right to hearing, appeal, or advance notice.

3. The Companies' failure to timely pay the unsuspended portion of the fine and to adhere to the conditions set forth herein shall constitute grounds for revocation of the Companies' Certificates of Authority, and shall result in the recovery of both the suspended and unsuspended amounts of the fine through a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

EXECUTED and AGREED this 28th day of March, 2008.

AMERICAN ECONOMY INSURANCE
COMPANY

By: Patty McCollum

Printed Name: Patty McCollum

Typed Corporate Title: Assistant Vice President

AMERICAN STATES INSURANCE COMPANY

By: Patty McCollum

Printed Name: Patty McCollum

Typed Corporate Title: Assistant Vice President

FIRST NATIONAL INSURANCE COMPANY OF
AMERICA

By: Patty McCollum

Printed Name: Patty McCollum

Typed Corporate Title: Assistant Vice President

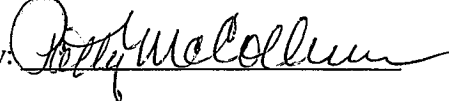
GENERAL INSURANCE COMPANY OF
AMERICA

By: Patty McCollum

Printed Name: Patty McCollum

Typed Corporate Title: Assistant Vice President

SAFECO INSURANCE COMPANY OF
AMERICA

By: 

Printed Name: Patty McCollum
Typed Corporate Title: Assistant Vice President

ORDER OF THE INSURANCE COMMISSIONER


Pursuant to the foregoing Findings of Fact, Conclusions of Law, and Consent to Order, the Insurance Commissioner hereby orders as follows:

1. American Economy Insurance Company, American States Insurance Company, First National Insurance Company of America, General Insurance Company of America, and Safeco Insurance Company of America (herein "the Companies") shall pay a fine in the amount of Twenty Seven Thousand Dollars (\$27,000), of which amount the sum of Thirteen Thousand Five Hundred Dollars (\$13,500) is suspended subject to the conditions set forth in the "consent to order" section above, including the conditions that the Companies fully comply with the laws and regulations of the State of Washington which are the subject of this Order for the next three years, and the further condition that the Companies fully carry out their obligations under the Compliance Plan attached hereto as Exhibit A.
2. The payment liability and compliance obligations of each of the Companies under this Order are joint and several.
3. The Companies shall comply with and carry out the Compliance Plan set forth in Exhibit A hereto, which Compliance Plan is hereby incorporated into this Order by reference as though fully set forth herein; and
4. The Companies' failure to timely pay the unsuspended portion of the fine and to adhere to the conditions set forth herein shall result in the revocation of the Companies' Certificates of Authority and in the recovery of both the suspended and unsuspended amounts of the fine through a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

ENTERED at Tumwater, Washington, this 1 day of April, 2008.

MIKE KREIDLER,
Insurance Commissioner

By:


Alan Michael Singer
OIC Staff Attorney
Legal Affairs Division

Consent Order D07-330
Attachment 1 to Exhibit A
WASHINGTON COMPLIANCE PLAN

American Economy Insurance Company, American States Insurance Company, First National Insurance Company of America,
General Insurance Company of America, and Safeco Insurance Company of America

AUDIT CATEGORY	REGULATION OR STATUTE CITED	TITLE OF PERSON AUDITING	ITEMS REVIEWED	TIME PERIOD REVIEWED	SAMPLING TECHNIQUE	WHEN STARTED	HOW DONE	FOLLOW-UP
Accuracy and correctness of Annual Statements	RCW 48.05.250	TBD	Special Liability Reports and Annual Statements (and supporting data) from 2003 to present	Each annual audit shall cover the Annual Statement and "items reviewed" as referenced herein		At least three months before each Company's Annual Statement must be filed		
Accuracy and correctness of Special Liability Reports	RCW 48.05.390, WAC 284-07-010, and RCW 48.05.380	TBD	Special Liability Reports and Annual Statements (and supporting data) from 2003 to present	Each annual audit shall cover the Special Liability Report and "items reviewed" as referenced herein		At least three months before each Company's Special Liability Report must be filed		
Timely filing of Special Liability Reports, including reasonable documentation of any extensions	WAC 284-07-010 and RCW 48.05.390	TBD	Log notes and other systems for ensuring timely filings	One calendar year		At least three months before each Company's Special Liability Report must be filed		Has the Company reasonably documented any duly authorized extension granted?

Consent Order D07-330

Attachment 2 to Exhibit A

American Economy Insurance Company, American States Insurance Company, First National Insurance Company of America, General Insurance Company of America, and Safeco Insurance Company of America

Internal Audit Results

State of Washington Compliance Plan

Audit category: _____

Name of auditor: _____

Auditor's employer: _____

Auditor's title: _____

Auditor's phone or e-mail: _____

Time period reviewed: _____

Date audit completed: _____

Date by which this form
is to be completed: _____

Date by which next audit
is to be completed : _____

List the specific items reviewed:

(For example, if policies were reviewed, list the policy numbers. If form filings were reviewed, list their company identification numbers. If claim files were reviewed, list their claim numbers):

Items were reviewed for compliance with the following statutes and/or regulations
of the State of Washington:

Number of exceptions found ("Exceptions" is defined as conduct not in compliance with the State of Washington statutes and regulations listed above):

If any exceptions were found, describe the exception(s) and list the policy or form number(s), and other relevant documents:

If any exceptions were found, describe the remedial action(s) that will be taken and the date by which they will occur:

Signature: _____

Date: _____

Exhibit A to Consent Order D07-330

WASHINGTON COMPLIANCE PLAN

American Economy Insurance Company, American States Insurance Company, First National Insurance Company of America, General Insurance Company of America, and Safeco Insurance Company of America

Introduction

This Exhibit outlines a compliance plan to ensure that American Economy Insurance Company, American States Insurance Company, First National Insurance Company of America, General Insurance Company of America, and Safeco Insurance Company of America (hereinafter referred to collectively as the "Companies") are in compliance with Washington Insurance Laws and Regulations identified in Consent Order D07-330. The plan requires internal audits with reports to the OIC. This Exhibit is attached to Consent Order D07-330 as "Exhibit A" to that Order. This Exhibit is incorporated into that Order, and the obligations of each of the Companies under this Exhibit constitute obligations under the Consent Order to which it is attached.

Effective Date of Plan

The Companies' audits described below will cover a two year period, commencing the date that Consent Order D07-330 is entered.

Internal Audits

In order to assess the effects of the Companies' compliance with Washington Insurance Laws and Regulations identified in Consent Order D07-330, and to properly address the violations outlined in Consent Order D07-330, the Companies will each perform two consecutive audits of its compliance with the Washington statutes and regulations outlined in Consent Order D07-330. The Companies will each perform these audits over the course of the above-referenced two year period. The Companies will each report audit results to OIC once each year, each report following the completion of each consecutive year's audit. The audits will cover the violations identified in Consent Order D07-330: (1) accuracy and correctness of Annual Statements, (2) accuracy and correctness of Special Liability Reports, (3) timeliness of filing of Special Liability Reports, including reasonable documentation of any extensions. Audits will be performed consistent with the "Internal Audits Plan" table contained herein (see "Attachment 1").

The Companies will each summarize and report each's audit results using the "Internal Audit Results" form also contained herein (see "Attachment 2"). As indicated in Attachment 2, the Companies will each undertake appropriate remedial action for each exception found within any audit. Each Company is also invited and encouraged to supplement completed forms with other reports, forms, tabulations, data summaries, or other information-containing media that help relate the audit results to OIC in a meaningful manner. All audit results, forms, summaries, and other materials will be

completed and provided to OIC within thirty (30) calendar days of the end of each year's audit period. In addition, when each Company submits to OIC the results of the first audit, each Company will also include a separate audit addendum explaining and describing: (1) the Company's history of similar violations in Washington and elsewhere; (2) other state insurance regulators' responses to the Company's similar violations, including any fines or monetary penalties previously assessed elsewhere; (3) each corrective action the Company has previously taken in Washington and elsewhere to remedy its history of similar violations; (4) a measurement of the success or failure of each corrective action the Company has previously taken to remedy its history of similar violations; and (5) verification that the Company's current efforts under this compliance plan are expected to prevent similar violations from occurring in all states where the Company conducts business. All audit reports, completed Internal Audit Results forms, summaries, and other related materials, along with any questions, will be made to OIC through the following:

ATTN: Ms. Christine Tribe
Office of the Insurance Commissioner
PO Box 40255
Olympia, WA 98504-0255
(360) 725-7061
ChrisT@OIC.WA.GOV